

Approved by the Regents
June 17, 2010

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ACTION REQUEST

Subject: Proposed FY 2011 University of Michigan Hospitals and Health Centers (UMHHC)
Operating Budget

Action
Requested: Approval

Background:

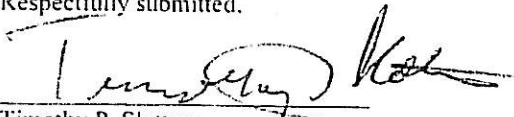
UMHHC has completed its annual operating budget process for FY 2011. The enclosed budget is predicated upon a combination of modest patient activity growth, inflationary rate increases, and expense management. The activity, revenue and expense projections result in a 4.0% operating margin.

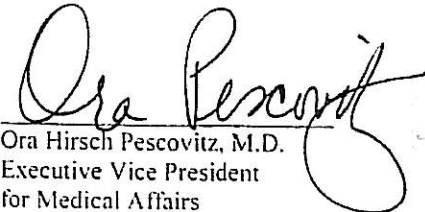
The current economic conditions and the reimbursement climate for health care are expected to continue as significant challenges in FY 2011. Although national health care reform has been passed, it is not anticipated to have a significant impact in FY 2011.

Demand for both inpatient and outpatient services continues to grow. A few additional inpatient beds are planned for the new fiscal year, providing increased access to meet growing patient demands. However, \$11M will be incurred associated with the preparation of the opening of the new Mott Children's and Von Voightlander Women's Hospitals in early FY 2012. This budget includes an ongoing commitment to productivity improvements and cost effectiveness strategies across inpatient and outpatient areas. The FY 2011 UMHHC Operating Budget also reflects incremental increases in expenditures necessary to achieve the activity projections.

We recommend the Regents approve the proposed FY 2011 University of Michigan Hospitals and Health Centers' Operating Budget.

Respectfully submitted,


Timothy P. Slottow
Executive Vice President and
Chief Financial Officer


Ora Hirsch Pescovitz, M.D.
Executive Vice President
for Medical Affairs

June 17, 2010

**University of Michigan Hospitals and Health Centers
Operating Budget Assumptions
FY 2010 Forecast to FY 2011 Budget**

Activity

- 1.9% increase in physical bed capacity (staffing will flex with patient activity)
- 87.4% occupancy rate, up slightly from 86.0% in FY10
- 3.5% growth in patient days
- 5.8% growth in outpatient activity

Revenue

- Minimal net changes in Medicare and Medicaid payments per case.
- Medicaid lump sum payments increase modestly as ARRA benefits expected to be extended to June 2011.
- Blue Cross and commercial increase per contract.
- Continued shift towards government payers and uncompensated care.
- Impact of Health Care Reform in FY 2011 is approximately \$3M loss.
- Risk of additional payment reductions from government payers as state and federal FY 2011 budgets unfold.

Expenses

- Maintain competitive salaries
- 2.6% productivity improvement
- \$16M increase in Supply Costs related to activity
- Increased bad debt of \$6M

Margin Target

- 4.0% operating margin target

University of Michigan Hospitals and Health Centers
 Revenue and Expense Changes
 FY 2010 Forecast to FY 2011 Budget

Operating Revenue Forecast FY 2010	\$1,975 M	
• Increase in patient activity	77 M	
• Changes in payer mix	(7)M	
• Increase in charity care	(4)M	
• Change in reimbursement rates	48 M	
 Operating Revenue Budget FY 2011	 \$2,089 M	 5.8%
 Total Expense Forecast FY 2010	 \$1,909 M	
• Payroll	47 M	
• Supplies	16 M	
• Depreciation	5 M	
• Bad Debt	6 M	
• Other Expenses	12 M	
 Total Expense Budget FY 2011	 \$1,995 M	 4.5%
 Children's & Women's Activation Expenses	 \$11 M	

UNIVERSITY OF MICHIGAN HOSPITALS AND HEALTH CENTERS
FY 2011 OPERATING BUDGET
(Dollars in Millions)

	12 Months			12 Months	
	FY09 Actual	FY10 Forecast	Y2Y %	FY11 Forecast	Y2Y %
Operating Revenue	\$1,835	\$1,975	7.6%	\$2,089	5.8%
Operating Expenses					
Payroll	998	1,028	3.1%	1,075	4.6%
Supplies	355	386	8.8%	402	4.1%
Depreciation	130	137	5.4%	142	3.6%
Other Non-Salary	334	358	7.1%	376	5.1%
Total Expenses	\$1,817	\$1,909	5.1%	\$1,995	4.5%
C & W Activation Exp	\$0	\$0		\$11	
Operating Margin	\$18	\$66		\$83	
Margin %	1.0%	3.3%		4.0%	